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The influence of marketing instruments and rewarding on cardholders' behavior in coalition loyalty programs

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EXECUTIVE SUMMARY

Loyalty programs (LP), as marketing tools for managing relationships with customers, have increased in importance and spread in many markets. With this proliferation came a competition between LP providers and increased sophistication in LP design. One such important trend in practice is a rise of powerful LP partnerships, known as *coalition* LPs (or *multi-vendor* or *multi-partner* LPs), in which several firms jointly participate in an LP. This type of LP structure is often thought to be particularly effective, because it offers important benefits to participating firms and customers. Given that multiple firms participate in a coalition LP, this type of an LP offers cardholders substantially faster points collection across many vendors and a host of differing redemption options. To participating firms, coalition LPs offer considerable cost reduction and potential benefits of cross-purchasing which may encourage customer engagement. Because cardholders collect points (i.e. reward currency) on purchases at each partner in a coalition LP, they are encouraged to cross-purchase across coalition vendors to obtain points (and subsequently) rewards more quickly. Furthermore, this faster collection of points increases cardholders' prospects of collecting required amounts to reach reward thresholds, which subsequently makes rewarding (and rewarding effects on behavior) more likely.

Notwithstanding their dissemination in practice, little empirical research has explored coalition LPs. Particularly scarce are studies on cardholders' behavior in such LPs in response to marketing efforts. This thesis aims to address these gaps in the LP literature by specifically focusing on the behavior of cardholders and the effectiveness of marketing instruments within such a coalition LP.

To understand the behavioral responses of cardholders within a coalition LP, it is first necessary to understand the effects of LPs in general. Although much has been written about LPs, the field has polarized rather than reached the consensus on the effects of LPs on members' behavior, which has stirred considerable debate among practitioners and academicians alike. While some studies claimed a positive impact of LPs on customer behavior and firm performance, others have questioned the effectiveness of LPs all together. Therefore, the first study in this thesis collects and reviews the available academic (empirical) research, with an aim to separate what is known from what is conjectured. To this end, the first study of this thesis (chapter 2) provides a comprehensive, research-based synthesis of current knowledge about LPs and identifies existing gaps in knowledge, future trends and

research directions. Specifically, the study synthesizes the available evidence in the areas of LP enrollment, LP effects on behavior, LP effects on attitudes, effects of LP mechanisms (e.g., points pressure, rewarded behavior, personalized marketing), and the role of LP design. One of the most important conclusions of this overview is that LPs are effective relationship building tools, since they have positive effects on behavior and attitudes of cardholders after LP enrollment (particularly on their retention, spending and usage levels).

The literature overview also revealed a growing trend of networking in LPs and the increased importance of coalition LPs. However, existing empirical studies primarily focused on the effects of LPs offered by a single firm (i.e. sole-proprietary LPs). On the other hand, relative to sole-proprietary LPs, coalition LPs may offer important benefits of cross-purchasing (i.e. encouraging purchases from coalition LP partners) and faster reward redemption. Since empirical studies of coalition LPs are scarce, two subsequent studies aimed to address the identified gaps in knowledge. In addition to the identified lack of research on coalition LPs, the literature survey identified a gap in knowledge on the effectiveness of marketing instruments (e.g., sales promotions, targeted mailings) within LPs in general. Therefore, the second and the third study of this thesis analyze the effects of marketing instruments on cardholders' behavior within a large, Dutch coalition program with multiple vendors.

The second study of this thesis analyzes the effects of promotional mailings (marketing instruments) on sales performance of the five largest coalition partners in the above-mentioned coalition LP. Targeted mailings to LP members with promotional offers are a frequently used marketing tool to increase sales (i.e., LP points collection) at LP vendor(s). To analyze the effectiveness of marketing instruments used in the coalition LP, the study analyzed the effects of individual-vendor and joint (multiple vendors) promotional mailings on the weekly sales performance of focal vendors in the program. The featured promotional mailings offered additional amount of LP points to cardholders during the promotional period at the focal vendor(s). Findings of the study indicate low overall responsiveness of cardholders to such LP-induced promotions. In other words, our findings suggest that analyzed promotional mailings which aimed to increase point collection do not have a significant impact on aggregate sales to cardholders. This would imply that MVLP cardholders use their cards in regular purchases and collect loyalty points for the purchases but that majority of cardholders generally do not change their purchase behavior to respond to such LP promotions. Moreover, the analysis of promotional effects across analyzed vendors allows for an investigation of the cross-purchasing effects within the coalition LP. Such

strategic benefits of networking in the coalition LP are explored by examining the effects of promotional mailings across coalition vendors (i.e. cross-vendor effects of promotions) and the effectiveness of joint mailings. We found no strong evidence of coalition effects, because we found neither stronger effects for joint promotions of several vendors relative to individual-vendor promotions nor significant spillover effects of promotions across vendors (i.e., cross-vendor effects). These findings oppose the anecdotal evidence from the managerial literature on strong benefits of networking in MVLPs, at least with respect to the effectiveness of joint promotional mailings of this type and cross-vendor effects of such promotions.

Finally, coalition LPs offer important value-adding feature for cardholders. They allow cardholders to collect a reward currency faster and in that way increase the likelihood of redeeming a reward. Therefore, the coalition LP setting is suitable for studying the effects of rewarding on behavioral responses of LP cardholders. Specifically, the third study analyzes effects of reward redemption on weekly purchase incidence and spending behavior of cardholders in the weeks preceding the reward redemption and in the few weeks after the redemption. Moreover, it explores the influence of marketing instruments (LP mailings and cross-purchasing behavior) on these effects, controlling for individual differences across coalition LP members. This empirical study uses the same Dutch coalition LP analyzed in the previous study, but this time focusing on individual-level behavior.

The main finding of this analysis is that rewarding in the (coalition) LP increases members' likelihood of purchasing and their spending levels in short periods before and after reward redemptions (approximately five weeks before and after the reward redemption). On average, LP members are 4.8 percent more likely to purchase from the LP five weeks before redeeming and about 4.6 percent more likely to purchase in the five weeks after they redeem a reward. Even more, if members decide to purchase in those weeks, they spend more (on average 3.9 percent in the five weeks pre-reward and 2.8 percent in the five weeks post-reward). Moreover, marketing managers should be aware that the effects of rewarding transfer primarily to a higher likelihood of purchasing (higher purchase incidence) in pre- and post-rewarding periods, whereas rewarding has a somewhat weaker, but still ample effect on spending.

Moreover, the study analyzes the effects of targeted mailings and cross-purchasing. Findings of the study indicate that the number of mailings sent to a cardholder increases his/her purchase behavior over time. However, these targeted mailings did not further enhance the effects of rewarding. In other words, the increases in purchase behavior in pre-

rewarding and post-rewarding periods do not occur because of increased effects of mailings to cardholders. Moreover, the effects of rewarding are robust; they do not depend on cardholders' purchase levels, levels of satisfaction or the type of reward. In other words, the effects of rewarding hold across different conditions and groups of cardholders. They do not occur only for cardholders with high purchase levels, or only highly satisfied customers or just for some types of rewards and not for others. The positive effects of rewarding seem to be triggered by the rewarding process itself, which we coined as a "rewarding momentum". Importantly, the findings of this study suggest that coalition LP managers should aim to encourage cross-purchasing in LP networks. Cardholders who cross-purchase across coalition LP vendors have an overall higher likelihood of purchasing and higher spending levels in general (i.e., overall higher purchase levels). But even more, they experience strong pre-reward effects beyond these main purchase levels. In conclusion, it is highly beneficial for coalition LP providers to encourage reward-redemption and cross-purchasing from coalition partners within the program.

The seemingly contradictory findings of the second and the third study on the effectiveness of LP-induced marketing instruments and cross-purchasing can be explained by differences in the type of analyzed mailings and the difference in the level of the analysis. The second study analyzed the aggregate sales building potential of the specific type of promotional mailings which aims to encourage cardholders to collect more points in promotional periods. On the other hand, the third study analyzes the effects of all types of targeted mailings to cardholders, therefore not only the promotions but also those mailings which encourage redemption and present potential rewards and does not have a direct impact on sales of coalition vendors. Accounting mainly for their number (one, two etc. mailings in a given week), the third study found positive effects of the received number of mailings on cardholders' purchase behavior in general. Potential explanation may be in the difference in effectiveness of promotional relative to redemption mailings, but this empirical question could not be explored within this thesis due to the lack of data. The other difference is in the level of analysis, since the second study analyses aggregate sales levels of coalition partners, while the third study analyses individual cardholders' behavior.

We believe that the issue of LP networking is becoming increasingly more important and it will further increase in importance in years to come. We hope that this thesis will represent a valuable contribution to research in this area.

SAMENVATTING

Loyaliteitsprogramma's (LP's) als marketinginstrument voor het beheer van klantrelaties worden steeds belangrijker en in een groot aantal markten ingezet. De toenemende verspreiding van LP's zorgt voor een intensievere competitie tussen verschillende LP-aanbieders en een toenemende ontwikkeling en verfijning van het LP-design. Een belangrijke trend in de praktijk is het aangaan van partnerships, ook bekend als *multi-vendor* LP's (of *coalitie* of *multi-partner* LP's), waarin meerdere bedrijven gezamenlijk deelnemen aan een LP. Daardoor kunnen kaarthouders aanzienlijk sneller punten bij verschillende deelnemende bedrijven verzamelen en inwisselen tegen beloningen. Voordelen van een multi-vendor LP voor de deelnemende bedrijven zijn aanzienlijk lagere kosten dan bij een gewoon loyaliteitsprogramma en mogelijke netwerkeffecten. Deze netwerkeffecten ontstaan omdat spaarders de neiging kunnen hebben om bij verschillende bedrijven in het programma te gaan kopen (bijv. tanken bij benzinemaatschappij X en boodschappen bij supermarkt Y). Gezien de voordelen voor bedrijven en consumenten worden multi-vendor LP's in de managementliteratuur ook gezien als het loyaliteitsmanagement-instrument met het meeste potentieel, oftewel als "de natuurlijke eindstatus van LP's".

Er is echter weinig onderzoek gedaan om deze beweringen te verifiëren. In het bijzonder de reacties van kaarthouders op marketing-inspanningen (zoals verkoopacties en gerichte mailings) zijn nauwelijks onderzocht. Dit proefschrift is een van de eerste empirische studies die het gedrag van kaarthouders en de effectiviteit van marketing-instrumenten in een dergelijke multi-vendor LP analyseert.

In de eerste studie wordt de bestaande literatuur over loyaliteitsprogramma's en specifiek over multi-vendor programma's in kaart gebracht. Hieruit blijkt onder andere dat de resultaten in de bestaande literatuur een lage response van kaarthouders op promoties suggereren. Kaarthouders gebruiken hun kaart vooral voor reguliere aankopen en veranderen hun koopgedrag nauwelijks naar aanleiding van aan het LP gekoppelde promoties.

In de tweede studie worden de strategische voordelen van netwerken in een multi-vendor LP onderzocht, vooral de effecten van een promotionele mailing van een bedrijf op de omzet van andere bedrijven die deelnemen aan het multi-vendor LP (zo genaamde cross-vendor effecten van promoties) en de effectiviteit van gezamenlijke mailings. Deze studie levert geen sterk bewijs voor dergelijke effecten van een multi-vendor LP. De effectiviteit van gezamenlijke promoties blijkt niet hoger te zijn dan die van een promotie van een individueel bedrijf, en ook aanzienlijke cross-vendor effecten konden niet worden

aangetoond. Deze bevindingen staan haaks op anekdotische bevindingen uit de marketingliteratuur die sterke netwerkvoordelen in multi-vendor LP's suggereren. Netwerkeffecten van een multi-vendor LP lijken eerder indirect te zijn, b.v. door het delen van kosten door de deelnemende bedrijven en de toegenomen waarde van het LP voor de klant. Multi-vendor LP's zouden beter gebruik moeten maken van dit onbenutte potentieel.

In de derde en laatste studie wordt ingegaan op de toegevoegde waarde van multi-vendor LP's voor de kaarthouders, namelijk dat punten sneller verzameld kunnen worden, een beloning sneller binnen bereik is en de waarschijnlijkheid hoger is dat punten verzilverd kunnen worden. Multi-vendor LP's zijn daardoor een uitermate geschikte setting om de reactie van kaarthouders op beloningen te onderzoeken. Deze studie analyseert in hoeverre het verzilveren van spaarpunten het koopgedrag van kaarthouders in de weken voor en na het verzilveren van punten beïnvloed. Ook wordt het effect van marketinginstrumenten zoals mailings onderzocht, waarbij rekening met individuele verschillen tussen de deelnemende bedrijven wordt gehouden.

De belangrijkste conclusie uit deze analyse is, dat het verzilveren van punten invloed heeft op het koopgedrag van kaarthouders. Kaarthouders zijn ongeveer vijf weken voor en vijf weken na het verzilveren van punten meer geneigd om aankopen te doen en geven meer geld uit. Gemiddeld genomen stijgt de aankoopkans met 4,8% in de weken voor het verzilveren van punten en met 4,6% in de weken erna. Kaarthouders die in deze weken een aankoop doen besteden gemiddeld genomen 3,9% meer in de vijf weken voor het verzilveren van punten en 2,8% meer in de vijf weken erna. Deze effecten zijn stabiel bij verschillende condities en klantgroepen en komen niet alleen voor bij zeer tevreden kaarthouders of kaarthouders met een uitgebreider bestedingspatroon. Ook zijn de effecten onafhankelijk van het type beloning dat de kaarthouder kiest. De positieve effecten van het verzilveren van spaarpunten lijken dus te worden veroorzaakt door het beloningsproces zelf.